STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois, Petitioner Proposed general increase in gas delivery service rates and revisions to other terms and conditions of service.	)))))))	Docket No. 15-0142

REPLY BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

NOW COMES the Staff of the Illinois Commerce Commission ("Staff"), by and through its undersigned counsel, pursuant to Section 200.830 of the Rules of Practice of the Illinois Commerce Commission ("Commission") (83 Ill. Adm. Code 200.830) and the schedule set by the Administrative Law Judges ("ALJs"), and respectfully submits its Reply Brief on Exceptions to the Proposed Order issued by the ALJs on November 3, 2015.

I. INTRODUCTION

In its November 13, 2015 Brief on Exceptions ("BOE"), Staff took exception to certain portions of the ALJs' Proposed Order ("ALJPO"). The issues to which Staff took exception were not addressed in the BOE of any other Party and Staff therefore stands on its exceptions.

Ameren Illinois Company d/b/a Ameren Illinois ("AIC" or "Ameren" or the "Company"), and the following parties also filed BOEs: The People of the State of Illinois *ex rel.* Lisa Madigan, Attorney General of the State of Illinois ("AG"); Citizens Utility Board ("CUB") individually; Archer-Daniels Midland as one of Illinois Industrial Energy Consumers ("IIEC") individually; CUB and IIEC collectively ("CUB/IIEC"); and Illinois Competitive Energy Association together with the Retail Energy Supply Association ("ICEA/RESA"). Staff's position on exceptions taken by various parties is set forth in detail below. To the extent that a Party takes exception to a portion of the ALJPO and Staff does not address that exception, Staff stands on its position as set forth in its Initial and Reply Briefs.

II. CUB/IIEC's EXCEPTION CONCERNING GASOLINE AND DIESEL FUEL PRICES SHOULD BE REJECTED (Section III.B.6)

The ALJPO found that Staff's Proposal for valuation of Ameren's gasoline and diesel fuel costs, which is accepted by Ameren, is reasonable and should be adopted. (ALJPO, 64.) CUB/IIEC argues that the AG's proposal to use gasoline and diesel fuel prices based on actual prices from the local market is superior to Staff's proposal to use national average fuel prices. (CUB/IIEC BOE, 12-13.) Staff disagrees. The ALJPO correctly adopted Staff's proposal which relies on U.S. Energy Information Administration ("EIA") prices from July 2015. (ALJPO, 64.) CUB/IIEC suggest that the AG's proposal is a better proxy for what Ameren is likely to pay in 2016 because it relies on prices that Ameren actually paid in the first part of 2015. (CUB/IIEC BOE, 13.) CUB/IIEC indicates that Ameren's own witness agreed that, all else equal, more recent actual data is a better indicator of future prices. (Tr., 75, Aug. 24, 2015) What CUB/IIEC fails to consider, however, is that Staff's proposal, which relies on the July 2015 EIA report, contains more recent pricing information than AG's proposal which relies on prices from only early 2015.

Therefore, the ALJPO correctly relies upon the most recent actual data contained in the record.

CUB/IIEC also argues that the national fuel price forecast does not reflect more localized indicators of fuel prices, and that those prices are likely to continue to decrease in subsequent months. (CUB/IIEC BOE, 13.) This claim has no merit. CUB/IIEC's claim fails to recognize that Staff's proposal included a correction factor for differences between Ameren's historical gasoline prices and the historical EIA values. (Staff Ex. 5.0, 6-7.) Further, Staff noted that Ameren's historical diesel fuel prices already directly correlated to the historical EIA prices. Id. at 9. As such, Staff's proposal accounts for variances that may exist between the local fuel market and EIA's national forecast. Accordingly, the CUB/IIEC exception related to fuel costs should be rejected.

III. EXCEPTION TAKEN BY IIEC ON ALLOCATION OF DEMAND-RELATED T&D COSTS SHOULD BE REJECTED (Section V.B.1)

The ALJPO adopts Ameren's Peak-and-Average methodology to allocate demand-related transmission and distribution ("T&D") costs. (ALJPO, 99.) Staff disagrees with IIEC's exception to the ALJPO's conclusion to use the Peak-and-Average method to allocate T&D main costs among the various rate classes. The Peak-and-Average allocation method is a combination of the Design Day demand and Average demand, which is a function of customer class annual usage. IIEC, on the other hand, argues that use of the Design Day Method alone is the most appropriate cost of service allocation method for T&D main costs and recommends the Commission adopt this approach. (IIEC BOE, 2-13.)

Ameren discussed the evidence detailing the advantages of the Peak-and-Average Method over the Design Day method proposed by IIEC at length in its Initial

Brief. (AIC IB, 105-113.) As discussed in Staff's Initial Brief, Staff does not object to the Peak-and-Average method and recommended the Commission adopt the Peak-and-Average method to allocate demand-related T&D costs. (Staff IB, 33.) The Peak-and-Average approach is the same methodology used and approved by the Commission in AIC's previous gas rate cases, Docket Nos. 13-0192 and 11-0282, which allocated T&D costs using a combination of Design Day Demand and Average Demand. Id. at 9. Therefore, IIEC's exceptions should be rejected and the ALJPO should maintain its findings and conclusions on this issue.

IV. EXCEPTION TAKEN BY CUB AND THE AG ON RECOVERY OF REVENUES THOUGH FIXED CHARGES SHOULD BE REJECTED (Section VII.B.1)

The ALJPO adopts Staff's proposal to reduce to 70% the percentage of revenues collected through fixed customer charges for residential and small non-residential customers. (ALJPO, 109.) Staff disagrees with the AG's and CUB's exception to the ALJPO's conclusion to reduce the recovery of revenues through fixed charges from 80% to 70%. Instead, the AG and CUB argue for a greater reduction in the percentage of fixed cost recovery, all the way down to 54%. This 54% is based on the results of the Company's cost of service study, which shows that customer-related costs are approximately 54% of the revenue requirement for the GDS-1 customer classes.

The AG and CUB present several arguments. They argue that the difference between the ALJPO's 70% and the cost of service study's ("COSS") 54% represents intra-class subsidies from lower users to higher users. The AG and CUB also argue that, while the ALJPO's conclusion alleviates these intra-class subsidies, it fails to eliminate them. (AG BOE, 32-33; CUB BOE, 4.) The AG and CUB further argue that Ameren has several revenue stability rate mechanisms in place, so higher fixed-cost recovery is not needed in order to promote revenue stability. (AG BOE, 29; CUB BOE, 5-6.) The AG also argues that approving both Rider VBA and the higher 70% fixed cost recovery is inconsistent with recent Commission orders. (AG BOE, 29-32.)

Staff generally agrees with these observations and stated as such in direct testimony. (Staff Ex. 4.0, 17-18.) However, Staff does not agree that rates for the GDS-1 customer class should be set at COSS-determined rates at this time. Staff recommends the Commission gradually work toward achieving the goal of allocating only the customer component costs determined by the COSS to the Customer Charge. Id. at 20.

Customers could see large bill impacts as a result of Ameren's original rate design proposal, while also facing an increase in their rates due to an overall increase to the revenue requirement. In comparison to Ameren's rate design proposal, Staff's proposal results in a 19.23% to 22.08% higher increase for larger-use customers for distribution-only rates. Id. at 29. The AG's proposed rate design, on the other hand, would result in even greater increases for distribution-only rates for larger-use customers. The rate design proposal advocated by the AG may have considerable bill impacts for certain customers, while the gradual approach advocated by Staff and adopted in the ALJPO will help alleviate such impacts. (Staff Ex. 4.0, 20.) Staff's rate design proposal accurately balances increases for larger-use customers with an overall increase to the revenue requirement when analyzing bill impacts. Accordingly, the AG and CUB exceptions related to the reduction of the recovery of revenues through fixed charges should be rejected.

V. RESPONSE TO EXCEPTIONS TAKEN BY IIEC/RESA

A. IIEC/RESA's Exception to the Ten Day Rescission Window for Rider T Customers Should be Rejected (Section VIII.B.2)

The ALJPO concludes that the ten-day rescission window should only be available to Rider T customers taking service under the smallest commercial rate class, GDS-2, and "any small seasonal customers in the GDS-5 class that are eligible for, the GDS-2 rate." (ALJPO, 117.) The ALJPO notes that Staff and ICEA/RESA argue that availability of a ten-day rescission window to large commercial customers might raise Rider T supplier costs and hence market prices. Id. at 116. On the other hand, the ALJPO notes the validity of Ameren's argument that it is sometimes difficult for it to determine whether a given customer is eligible for the rescission window. Id. at 117.

ICEA/RESA states that the ALJPO does not resolve the problem that ICEA/RESA has with Ameren's current tariff. Specifically, it asserts that 78% of Rider T customers are in GDS-2. It further notes that some GDS-2 customers are "very large." (ICEA/RESA BOE, 2.) Thus, ICEA/RESA proposes that the ten-day rescission window be limited to small commercial customers. It offers language for the order to implement that proposal. (ICEA/RESA BOE, 2-3.)

Staff does not believe the record reflects the data for the percentage of Rider T customers in GDS-2 on which ICEA/RESA relies. Also, the definition of "very large" as it relates to gas customers is not clear. Neither of these assertions justifies upsetting the balance that the ALJPO achieves in its conclusion. Staff believes that the ALJPO's resolution for the issues in dispute is reasonable, and Ameren should implement it until it has a better method for identifying customers eligible for the ten-day rescission window. The proposal eliminates uncertainty about whether a customer is eligible for the window or not, while also reducing concerns associated with providing the window to the largest customers. Id.

Ameren complains that the GDS-5 customer class has more than 200 customers in it, and the ALJPO obliges it to assess whether each of those customers is eligible for the ten-day rescission window. Rather than be required to assess whether each GDS-5 customer meets the requirements for a GDS-2 customer, Ameren proposes an exception to grant the rescission window to all GDS-5 customers. (AIC BOE, 4-6.)

Staff does not oppose this exception from Ameren, since it only adds approximately 200 more customers to the group that is eligible for the ten-day window. Staff continues to maintain that the best solution is for the window to only apply to small commercial customers as defined by the Public Utilities Act. (Staff IB, 45-47.) However, until Ameren has a program specifically tailored to small commercial customers, the ALJPO has forged a reasonable compromise. The Commission should revisit this issue when Ameren develops such a program. In the interim, Staff does not oppose the existing language in the ALJPO on this issue, or Ameren's proposed exception but does think ICEA/RESA's exception should be rejected.

B. IIEC/RESA's Exceptions Requiring Workshops

1. Staff Does Not Oppose IIEC/RESA's Alternative Exceptions if Workshops Do Not Result in Consensus (Section VIII.B.3)

The ALJPO calls for workshops to develop a record regarding combined billing practices for electric and gas customers in Ameren's next rate case. (ALJPO, 120.) ICEA/RESA proposes an exception to change the PO's decision on Ameren's billing practices for customers who have a different non-utility supplier for gas and electric service. (ICEA/RESA BOE, 3-5.) The exception calls for Ameren to provide separate bills for gas and electric service. ICEA/RESA argues that the record is substantive enough at present to support this order, noting that it has raised this issue in two Commission proceedings. It further states that Ameren failed to support its claim that the cost to accomplish this task was onerously high. Id. In the alternative, ICEA/RESA propose to amend the ALJPO's language concerning workshops by requiring a Staff report that include recommendations for how to resolve this issue. In particular, ICEA/RESA suggests that the report discuss "whether the Commission should initiate a Section 9-250 proceeding to investigate this matter." Id. at 5.

Staff believes that the ALJPO's resolution of this issue is reasonable, but Staff does not oppose ICEA/RESA alternative exception requiring a Staff report in the event that consensus is not reached.

2. Staff Does Not Oppose IIEC/RESA's Exception that the Staff Report Should Address the Need for a Section 9-250 Hearing (Section VIII.B.4)

The ALJPO orders that the workshops established for the combined billing issue also be used to explore the extent to which Ameren's meter reading and billing have deteriorated, and what steps should be taken to remedy any problem that exists. The ALJPO declines to adopt specific measures proposed by ICEA/RESA. (ALJPO, 123.) ICEA/RESA argue that the evidence ICEA and RESA introduced into the record is adequate to support a Commission order to adopt its recommendations, specifically to require: establishing the fifth business day of the month for a firm date on final usage; a standard notice, other than the invoice itself, for usage revisions; and notification of the supplier's designated contact when volume change is made to a closed invoice. (ICEA/RESA BOE, 6-7.) Similar to its exception for the combined billing issue, ICEA/RESA provides an alternative exception to strengthen the workshops if the Commission rejects its primary position. As an alternative, ICEA/RESA suggest a Staff report in the event the workshops do not result in a consensus on the issue, with a requirement that the report address whether a Section 9-250 proceeding should be initiated. Id. at 7-8.

Staff believes that the ALJPO's resolution of this issue is reasonable and ICEA/RESA's primary exception should be rejected, but Staff does not oppose ICEA/RESA's alternative exception requiring a Staff report in the event that workshops do not result in a consensus on this issue.

VI. CONCLUSION

WHEREFORE, Staff respectfully requests that the Proposed Order be adopted subject to Staff's Exceptions set forth in its Brief on Exceptions and consistent with the arguments set forth herein.

Respectfully submitted,

/s/

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